

MONTHLY HOUSING MARKET UPDATE

April 18, 2017

Canada's housing market heated up further and more widely in March

- The sharp monthly increase in home resales recorded in February across Canada was not a weather-related fluke. Statistics released this morning by the Canadian Real Estate Association (CREA) showed a further 1.1% gain in March to an all-time high of 556,200 units (annualized). March resales easily surpassed a strong level a year ago by 6.6%.
- Gains in March were widely spread across the country with two-thirds of local market posting increases month over month, and three-quarters of markets experiencing stronger resales compared to a year ago. The Vancouver, Toronto and Montreal areas were among the markets seeing monthly advances. Calgary and Edmonton posted their first monthly declines in four months.
- March statistics also provided some evidence that the supply side of the market may be finally picking up. Nationwide, new listings rose the second-straight month by 2.5%, following a more substantial 5.8% increase in February. Encouragingly, the Toronto-area market—where supply is exceedingly short of demand—saw one of the larger monthly increases across Canada in March (up 9.5%). New listings also rose in the Vancouver area (by 6.9%).
- Despite more supply becoming available last month, CREA estimates that demand-supply conditions continue to favour sellers in 60% of markets across Canada based on local sales-to-new listings ratios. Virtually all markets in Southern Ontario and British Columbia have sales-to-new listings ratio above (and in many cases, well above) the threshold of 0.60 that typically indicates a sellers' market. In the aggregate, the sales-to-new listings ratio in Canada eased from 0.68 in February to 0.67 in March.
- With sellers in the driver's seat in most local markets, home prices have remained on parabolic trajectory at the national level. The composite MLS Home Price Index (HPI) in Canada was up by 18.6% from a year ago in March—twice the rate of 9.3% prevailing in March 2016. Prices continued to follow opposite trajectories in Toronto and Vancouver. The Toronto area led all major markets with an annual price rise of 28.6% (up from 23.8% in February and 11.8% in March last year). The rate of increase in Greater Vancouver's MLS HPI eased further to 12.7% (from 14.0% in February and a peak of 32.6% in July).
- Perhaps more importantly, upward pressure on prices is spreading rapidly to markets across Southern Ontario. Average sale prices have surged by more than 20% year over year in nearly all markets in that portion of the province in March, with markets such as Hamilton, Guelph, Kitchener-Waterloo, Cambridge, St. Catharines, Niagara Falls, Welland and Barrie showing rises closer to 30% or more.
- The frenzy observed in a growing number of markets in Ontario is a clear sign that the exuberance driving Toronto's prices ever higher is seeping quickly into

March Snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	6.6	-1.2	18.6	0.67
Toronto	17.0	14.7	28.6	0.77
Montreal	9.2	0.0	3.3	0.61
Vancouver	-31.5	-24.1	12.7	0.70
Calgary	21.9	-0.6	-1.2	0.60

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

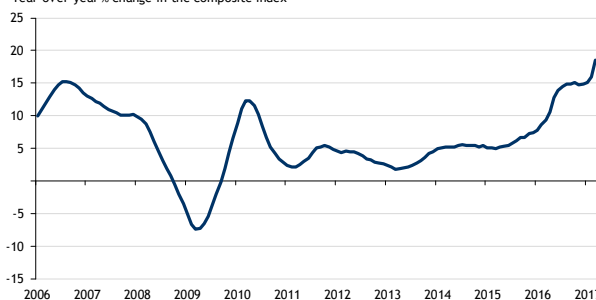
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

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areas that previously had been more affordable for buyers. Now the majority of the populated areas of Ontario face higher risks.

- A policy response to address those risks is on its way in Ontario. Policymakers soon will announce measures to cool the Southern Ontario market down.

Overheating risks have risen

The data released this morning probably quashed any remaining hope that the latest mortgage insurance rule tightening announced last October would cool Canada’s housing market down. Much to our surprise, it appears that the substantial hike in the qualifying rate for mortgage insurance on mortgages with terms of five years or more has had little restraining effect overall in Canada. Since the new rules were implemented last fall, home resale activity barely flinched at all in some of Canada’s hottest markets in Southern Ontario. In other markets, such as Montreal and Ottawa any slowing has been modest and temporary at best. And in Vancouver—which was in the midst of a significant cooling when the federal rule changes were announced—there have been early signs in the past couple of months that the market heat may be on its way back. Thus, the most recent round of policy measures at the federal level has done little to ease overheating risks in key parts of the country. In fact, because the Toronto and other Southern Ontario markets—Canada’s most populated area—have become even hotter and more detached from market fundamentals, that risk has risen quite noticeably in recent months.

Policymakers ponder a course of action

So it is in this context that policymakers at the federal, provincial and municipal levels ponder a course of action to address such risks in Toronto and surrounding areas. The challenge, of course, is to design a set of policies that would minimize adverse consequences for the many markets across Canada that exhibit none of the ills of their overheated counterparts. Perhaps an even tougher challenge is the fact that policymakers will weigh the pros and cons of policy options with only partial or anecdotal sense of the driving forces at play because data is sorely lacking on some of the possible drivers (for example, on foreign buyers and investors). Consequently, it would be prudent for all three levels of government in Southern Ontario to coordinate any policy intervention efforts and adopt a multi-pronged approach to tackle issues on both the supply and demand sides.

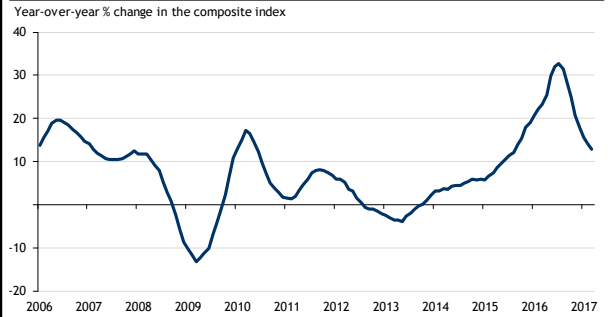
What should be done? Rein in price expectations

We believe that the current market dynamics in Toronto and the rest of Southern Ontario pose significant risks to the stability of the market over the medium term and that targeted policy intervention is needed. Runaway prices have decoupled from the area’s still-strong economic and demographic fundamentals, and we believe that the ongoing upward price spiral is being fueled primarily by overly exuberant expectations on the part of both buyers and sellers. In our view, to be successful at cooling the market down, any suite of policy measures being proposed must rein in price expectations. This suite, therefore, must be credible and send a strong message to all stakeholders about the future direction of prices. Policymakers also should stand ready to adjust the suite of measures as needed.

Difficult to forecast

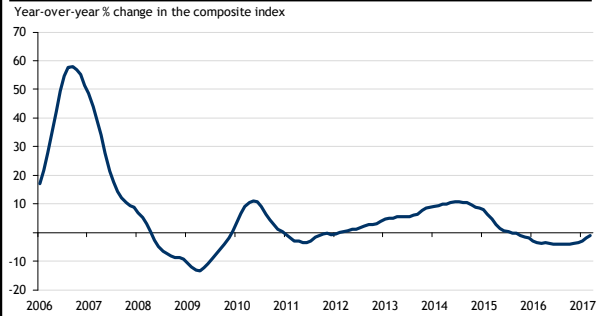
We have recently boosted our housing forecasts in light of stronger-than-expected data in recent months, although we continue to project a moderation of home resale activity in Canada in 2017, after a record year in 2016, on the basis that stretched affordability and policy actions will eventually temper homebuyer demand. We now forecast home resales to fall by 5.3% to 507,500 units—upwardly revised from a 10.9% decline to 477,700 units previously. For home prices, we forecast an increase of 4.8% overall in Canada this year (up from 2.1% previously), with Ontario leading the country with a 9.3% gain. The strong numbers for March released today point to additional upside risks to our forecasts; however, the likelihood of policy intervention in Ontario creates a fair degree of uncertainty about the provincial market’s performance during the remainder of this year. Our current forecast assumes a mild moderation in activity in Ontario arising from policy intervention.

MLS Home Price Index - Vancouver



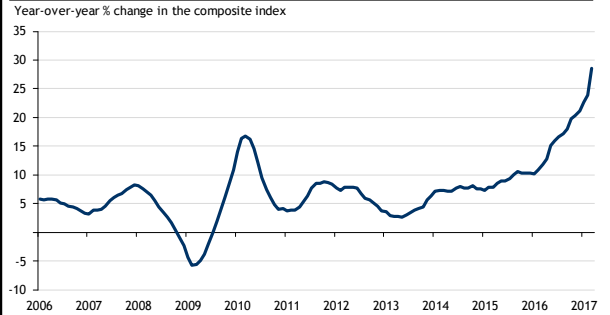
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



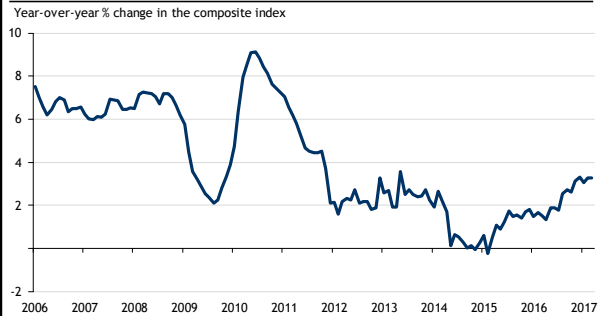
Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal



Source: CREA, RBC Economics Research

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